AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
AND SUPPLEMENTAL REPORT

COMMUNITY MENTAL HEALTH AUTHORITY
WAKEFIELD, MICHIGAN

September 30, 2007

Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Community Mental Health Authority	Gogebic

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
September 30, 2007	January 31, 2008	February 18, 2008

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below.** (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☐	☒	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☐	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number
Joki, Makela & Pollack, PLLC	906-932-4430

Street Address	City	State	Zip
301 N. Suffolk Street	Ironwood	MI	49938

Authorizing CPA Signature	Printed Name	License Number
Anthony R Pollack CPA	Anthony R. Pollack	110101382

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Community Mental Health Authority
Wakefield, Michigan

We have audited the accompanying basic financial statements of Community Mental Health Authority, a component unit of Gogebic County, Michigan and its discretely presented component unit as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of Community Mental Health Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States and the standards prescribed by the State Treasurer. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Mental Health Authority and its discretely presented component unit as of September 30, 2007, and the results of its operations and changes in its fund balance for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2008, on our consideration of Community Mental Health Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and page 34, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
January 31, 2008

Management's Discussion and Analysis

This section of the Community Mental Health Authority's (Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended September 30, 2007. It is to be read in conjunction with the Authority's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending September 30, 2007.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the Authority as a whole. The statements are prepared using the accrual basis of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the Authority's assets and liabilities. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental activities of the Authority that include all services performed by the Authority. These activities are funded primarily by federal and state monies.

The statement of net assets shows the Authority's assets and liabilities. The corresponding balance between the assets and liabilities equals the net assets or deficit of the Authority. A deficit occurs when there are more liabilities than there are assets to pay those liabilities. This statement measures the financial strength of the Authority; the greater the net asset figure, the healthier the financial position of the Authority generally is. It helps management determine if the Authority will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net assets on a revenue less expense basis. It generally shows the operating results for a given year of the Authority. Any excess of revenues over expenses results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Authority.

Fund Financial Statements

The Authority's fund financial statements show detail of funds that are determined to be significant, called major funds. The Authority has only one fund. That fund is a Governmental Special Revenue Fund, which is a major fund. The Authority has no nonmajor funds.

Governmental funds are accounted for by the modified accrual method of accounting (flow of current financial resources measurement focus). This method records revenues when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred. The governmental fund financial statements show the detail of operations for a given year according to this method of accounting. This is similar to how the Authority reported their finances in the past. The individual fund statements help management determine what financial resources are available on a short-term basis to fund operations.

Fund Financial Statements (Continued)

Since the government-wide financial statements and the fund financial statements use different methods of accounting to report the Authority's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

Government-wide Financial Statements – Condensed Financial Information (Primary Government Only)

Statement of Net Assets

The following is a September 30, 2007 and 2006, condensed statement of net assets with a detailed analysis below.

	Governmental Activities September 30,	
	2007	2006
ASSETS		
Current Assets:		
Cash	$ 328,563	$ 257,297
Accounts receivable	192,588	171,372
Prepaid expenses	277,541	286,194
Total Current Assets	$ 798,692	$ 714,863
Noncurrent Assets:		
Restricted cash	$ 227,170	$ 256,888
Capital assets, net of accumulated depreciation	2,035,050	2,132,884
Total Noncurrent Assets	$ 2,262,220	$ 2,389,772
Total Assets	$ 3,060,912	$ 3,104,635

Government-wide Financial Statements – Condensed Financial Information (Primary Government Only) (Continued)

Statement of Net Assets (Continued)

	Governmental Activities September 30, 2007	Governmental Activities September 30, 2006
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 565,082	$ 591,563
Accrued payroll and related fringe benefits	85,137	80,897
Other current liabilities	243,466	203,932
Total Current Liabilities	$ 893,685	$ 876,392
Long-term liabilities, net of current portion	1,360,309	1,526,709
Total Liabilities	$ 2,253,994	$ 2,403,101
NET ASSETS		
Investment in capital assets, net of related debt	$ 719,339	$ 655,288
Restricted for employee benefits	6,635	35,334
Unrestricted	80,944	10,912
Total Net Assets	$ 806,918	$ 701,534

The Authority's net assets are $806,918 at September 30, 2007. Capital assets, net of related debt are $719,339. This figure is derived by taking the original costs of the Authority's assets, subtracting accumulated depreciation to date and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets.

Restricted cash of $227,170 as of September 30, 2007, is restricted to pay for compensated absences.

The unrestricted net assets are $80,944 as of September 30, 2007. This is the net accumulated results of the current and past years' operations. The nature of the Authority's operations is based on state aid and Medicaid funds received to fund various mental health related programs. The balance in the unrestricted net assets shows that the Authority has ample amount of assets to fund liabilities at September 30, 2007.

Statement of Activities

The results of operations for the Authority as a whole are reported in the statement of activities. This statement reports the changes in net assets for the fiscal years ended September 30, 2007 and 2006.

	Governmental Activities Year ended September 30, 2007	2006
Revenue:		
Program Revenues:		
Charges for services	$ 440,001	$ 417,052
Operating grants and contributions	58,407	76,219
General Revenues:		
State aid and medicaid	5,393,123	5,443,084
Other	153,702	182,816
Total Revenue	$ 6,045,233	$ 6,119,171
Program expenses -		
Health and welfare	5,938,986	6,192,054
Special item - loss on disposal of assets	(863)	(1,406)
Increase (Decrease) in Net Assets	$ 105,384	$ (74,289)

The Authority had an overall increase in net assets of $105,384 for the year ended September 30, 2007.

The Authority's total revenues were $6,045,232. Of this amount, $4,660,241, or 77%, were from federal Medicaid funds, $732,882, or 12%, were state grants and $440,001, or 7%, were from charges for services. The balance was primarily a transfer from Gogebic County and interest and investment earnings.

The Authority's total cost to fund all governmental activities was $5,938,985. A majority of these costs were funded by other governmental agencies. This shows the Authority has reliance on the federal and state government to provide funding for their programs and administrative costs.

Governmental Fund Budgetary Items

During the year, the Authority revised its original budget two times to account for the changing environment of funding sources. A schedule showing the Authority's original budget, final budget and the actual results are included as required supplementary information in the financial section of the audit report.

The original budget was amended throughout the year to project the Authority's financial position as of September 30, 2007. Total revenues increased from the original budget to the final budget. This increase includes a decrease in the state general fund authorization per contract with the Department of Community Health and an increase in Medicaid revenue received from Pathways through the Medicaid sub-contract. Other revenue amendments throughout the year include an increase to a full year of Children's Waiver revenue, a decrease in grant revenue for the Prevention Grant, an increase in revenue earned through the Veterans Administration contract and amendments to client fee revenue according to actuals received for the year. Total expenses decreased from the original budget to the final budget. The decrease in expenses is due to a full year of savings from the program changes made during the Authority's reorganization, the moving of consumers from the state facilities to residential placements, the discontinuation of support for the prevention grant and the closing of the Celia Street Group Home. Areas of expenses that increased throughout the year include a full year of Children's Waiver expenses, the expansion of the Community Living Supports program and some additional funds authorized in the respite and highline programs.

The actual results were comparable to the final budget in all areas except for the charges for services, which was less than the amount budgeted. This variance is reported in Note C to the financial statements and in the Supplemental Report section of the audit report. The variance for the charges for services was due to the estimation of Medicaid revenue to be earned for the fiscal year. This revenue is based upon the estimation of services to be provided to Medicaid eligible consumers in Gogebic County for the year which is dependent upon the need of these consumers during this time.

Capital Assets

At September 30, 2007, the Authority had $2,035,050 invested in capital assets. This amount decreased during the past fiscal year by $97,833, consisting of additions totaling $14,942, depreciation charges of $111,912 and reductions of $863. Capital asset additions consisted mainly of computer equipment.

Debt

The Authority had $1,621,538 of long-term liabilities at September 30, 2007. This amount consists of $1,355,000 of a capital lease payable, $46,003 of notes payable to bank and $220,535 of accrued paid time off benefits payable to employees. Two years ago the capital lease payable was restated due to the bonds to finance the building under the original lease being refunded. The refunding saved the Authority $170,390 with an economic gain of $145,400.

Future Considerations

The Authority ended the year with a well balanced budget. The Authority balanced their general fund budget by clinically addressing the placement of the Gogebic County consumers in state facilities and absorbing a full year of savings from the program changes made during the Authority's reorganization. The Authority ended the year with a surplus in all three funding sources, Medicaid, General Fund and Local Revenues. In the upcoming year, the Authority will be making decisions regarding an Electronic Medical Records System to meet federal requirements. This project will impact the future budget as it could be a very costly project and will utilize a lot of staff time to implement. The Authority will need to continue to work closely with its own management team and the region to maintain a well balanced budget through the implementation of an Electronic Medical Records System.

Contacting the Authority

If you have any questions about this report or need additional information, contact the Authority offices at Community Mental Health Authority, 103 W. U.S. 2, Wakefield, MI 49968; telephone number (906) 229-6100.

BASIC
FINANCIAL
STATEMENTS

STATEMENT OF NET ASSETS

COMMUNITY MENTAL HEALTH AUTHORITY

September 30, 2007

		Primary Government		Component Unit
ASSETS				
CURRENT ASSETS				
Cash	$	328,563	$	178,591
Accounts receivable:				
State of Michigan		42,473		
Patients, less allowance of $2,500		62,711		
Other		87,404		
Prepaid expenses		277,541		
TOTAL CURRENT ASSETS	$	798,692	$	178,591
NONCURRENT ASSETS				
Restricted cash	$	227,170		
Unamortized bond issuance costs			$	52,006
Capital lease receivable				1,205,000
Unamortized deferred amount on capital lease restatement				(85,292)
Capital assets		3,445,714		
Accumulated depreciation		(1,410,664)		
TOTAL NONCURRENT ASSETS	$	2,262,220	$	1,171,714
TOTAL ASSETS	$	3,060,912	$	1,350,305
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable:				
State of Michigan	$	73,954		
Other		491,128		
Accrued payroll and related fringe benefits		85,137		
Deferred revenue		38,938		
Interest payable		28,591	$	28,591
Current portion of long-term liabilities		175,937		150,000
TOTAL CURRENT LIABILITIES	$	893,685	$	178,591
LONG-TERM LIABILITIES				
Compensated absences	$	220,535		
Capital lease/revenue bonds payable		1,355,000	$	1,355,000
Unamortized bond discount				(5,326)
Unamortized deferred amount on bond refunding				(22,547)
Unamortized deferred amount on capital lease restatement		(85,292)		
Notes payable to bank		46,003		
Less current portion		(175,937)		(150,000)
TOTAL LONG-TERM LIABILITIES	$	1,360,309	$	1,177,127
TOTAL LIABILITIES	$	2,253,994	$	1,355,718
NET ASSETS				
Investment in capital assets, net of related debt	$	719,339		
Restricted for employee benefits net of related liabilities		6,635		
Restricted for debt service (deficit)			$	(5,413)
Unrestricted		80,944		
TOTAL NET ASSETS	$	806,918	$	(5,413)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES

COMMUNITY MENTAL HEALTH AUTHORITY

Year ended September 30, 2007

		Program Revenues		Net (Expense) and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	Component Unit
PRIMARY GOVERNMENT					
GOVERNMENTAL ACTIVITIES					
Current:					
Health and welfare	$ 5,867,531	$ 440,001	$ 58,407	$ (5,369,123)	$ 0
Interest on long-term debt	71,455			(71,455)	
Total Primary Government	$ 5,938,986	$ 440,001	$ 58,407	$ (5,440,578)	$ 0
COMPONENT UNIT -					
MHF Sub G Human Services, Inc. - interest expense	$ 56,451			$ 0	$ (56,451)
GENERAL REVENUES					
State aid not restricted for specific purpose				$ 732,882	
Medicaid not restricted for specific purpose				4,660,241	
Transfer from Gogebic County				117,500	
Interest and investment earnings				23,244	$ 57,181
Other				12,958	
TOTAL GENERAL REVENUES				$ 5,546,825	$ 57,181
SPECIAL ITEM - loss on disposal of assets				(863)	
CHANGE IN NET ASSETS FOR THE YEAR				$ 105,384	$ 730
NET ASSETS (DEFICIT) - OCTOBER 1, 2006				701,534	(6,143)
NET ASSETS (DEFICIT) - SEPTEMBER 30, 2007				$ 806,918	$ (5,413)

The accompanying notes are an integral part of the financial statements.

BALANCE SHEET - GOVERNMENTAL FUND

COMMUNITY MENTAL HEALTH AUTHORITY

September 30, 2007

ASSETS

Cash		$ 328,563
Restricted cash		227,170
Accounts receivable:		
State of Michigan		42,473
Patients, less allowance of $2,500		62,711
Other		87,404
Prepaid expenses		277,541
		$ 1,025,862

LIABILITIES AND AUTHORITY EQUITY

Liabilities:		
Accounts payable:		
State of Michigan		$ 73,954
Other		491,128
Accrued payroll and related fringe benefits		85,137
Deferred revenue		38,938
Total Liabilities		$ 689,157
Authority equity -		
Fund balance:		
Reserved	$ 220,535	
Unreserved	116,170	336,705
		$ 1,025,862

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

COMMUNITY MENTAL HEALTH AUTHORITY

September 30, 2007

Total fund balance of governmental fund		$ 336,705
Amounts reported for governmental activities in the statement of net assets are different because:		
Additions:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund.		
The cost of the capital assets	$ 3,445,714	
Accumulated depreciation	(1,410,664)	2,035,050
Unamortized deferred amount on capital lease restatement is not a financial resource and therefore is not reported as an asset in the governmental fund.		85,292
Reductions:		
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental fund.		
Compensated absences	$ (220,535)	
Capital lease payable	(1,355,000)	
Note payable to bank	(46,003)	(1,621,538)
Accrued interest payable is not included as a liability in governmental activities		(28,591)
Total net assets of governmental activities		$ 806,918

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

COMMUNITY MENTAL HEALTH AUTHORITY

Year ended September 30, 2007

Revenues:		
Federal grants		$ 47,990
State grants		743,299
Charges for services		5,100,242
Other		36,202
		$ 5,927,733
Expenditures:		
Current expenditures -		
Health and welfare:		
Board administration	$ 1,499,098	
Prevention grant	11,457	
Clinical Services	1,515,464	
Clinical Support Services	113,287	
Vocational/Skill Building Programs	290,124	
State and Community Inpatient	398,380	
Residential	1,928,827	
	$ 5,756,637	
Capital outlay	14,942	
Debt service:		
Principal	$ 173,385	
Interest	62,855	
	$ 236,240	6,007,819
Deficiency of Revenues Over Expenditures		$ (80,086)
Other Financing Source -		
Transfer from Gogebic County		117,500
Excess of Revenues and Other Financing Sources Over Expenditures		$ 37,414
Fund balance at October 1, 2006		299,291
FUND BALANCE AT SEPTEMBER 30, 2007		$ 336,705

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

COMMUNITY MENTAL HEALTH AUTHORITY

September 30, 2007

Total net change in fund balance - governmental fund		$ 37,414
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or construct capital assets are reported as expenditures in governmental funds. For governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.		
Capital outlay	$ 14,942	
Depreciation expense	(111,912)	(96,970)
In the statement of activities, only the loss on the disposed assets is reported. In the governmental funds, proceeds from the disposal increases financial resources. Thus, the change in net assets differs by the net book value of the asset disposed.		(863)
In the statement of activities, only the amortization of the deferred amount on capital lease restatement is reported.		(11,500)
Repayment of bond and loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		173,385
Interest on long-term debt in the statement of activities is recorded as the interest is incurred. In the governmental funds, interest is recorded as an expenditure in the funds when it is paid. The additional interest recorded in the change in the governmental fund balance is due to the reduction in accrued interest from the beginning of the fiscal year to the end of the fiscal year.		2,899
In the statement of activities, operating expenses for compensated absences is measured by amounts earned during the year while the governmental funds report expenditures as amounts are paid. This year the amount paid for compensated absences was more than the amount earned by $1,019.		1,019
Change in net assets of governmental activities		$ 105,384

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE A - REPORTING ENTITY

Community Mental Health Authority began as the Gogebic County Community Mental Health Board, which was organized by Gogebic County to provide mental health services to Gogebic County residents under State of Michigan Public Act 258 of 1974, as amended by Public Act 290 of 1995. On April 24, 2002, under the authority of the same Public Acts the Gogebic County Board of Commissioners duly adopted various resolutions changing the Board's status to that of an Authority and the name to Community Mental Health Authority (the Authority). The resolutions were filed with the State of Michigan and became effective on April 29, 2002.

The Authority operates under the direction of an administrative board consisting of twelve members appointed by the Gogebic County Board of Commissioners.

The Authority is, under the requirements of GASB Statement Number 14 for financial-reporting purposes, considered a component unit of Gogebic County, Michigan due to the Gogebic County Board of Commissioners appointing the Authority's Administrative Board, the Authority continuing to be a part of Gogebic County, Michigan's retirement plan and upon dissolution, some of the Authority's assets will be transferred to Gogebic County, Michigan.

Also, under the requirements of GASB Statement Number 14 for financial reporting purposes, the MHF Sub G Human Services, Inc. (MHF Sub G), a nonprofit corporation, is considered a component unit of the Authority and is discretely presented in the financial statements. MHF Sub G was formed for the sole purpose of issuing bonds and constructing buildings, which are leased to the Authority under a capital lease. MHF Sub G operates under the direction of a Board appointed by the Authority's Board and made up of Authority personnel. MHF Sub G's only asset is the amount due from the Authority for the capital lease, which is under the same terms as the bonds payable by MHF Sub G.

These financial statements present only Community Mental Health Authority and its component unit.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The following is a summary of the significant accounting policies:

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report information for all of the activities of the Authority. The activities of the Authority are considered to be governmental activities.

The government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resource measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the Authority's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. The Authority has one function, health and welfare, and all of its program revenues are generated from charges for services and operating grants that are restricted for certain purposes.

Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, which are considered separate fiscal and accounting entities. The Authority has only one fund. That fund is a special revenue fund which is the major governmental fund.

Governmental funds are accounted for using the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenue is recognized when the revenue is subject to accrual, eligibility requirements are met and the revenues are available to finance expenditures of the fiscal period. Revenue is considered available when the revenue has been collected in the current period or soon enough after the end of the period to use to pay current fund liabilities. Expenditure-based grants are recognized as revenue when revenue is available, the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable - Patients

The Authority grants credit to individuals for various types of mental health services performed. A vast majority of the patient accounts receivable consist of amounts due from non-Medicaid third party payors and individuals. An allowance for uncollectible outpatient accounts (individuals), based on past experience, has been recorded in the financial statements. The Authority is under a capitated system where the Medicaid funds are paid monthly based on a formula using Medicaid rates and past experience. These funds are passed through Northcare Network, an affiliation of Mental Health Authorities in the Upper Peninsula of Michigan. Northcare Network is a part of Pathways Behavioral Health.

Accounts Payable

The amount due the State of Michigan consists principally of amounts due to the Department of Community Health for amounts due for inpatient care and group home leases. Other accounts payable consist primarily of amounts of unspent Medicaid funds due back to Pathways Behavioral Health.

Capital Assets and Depreciation

Capital assets include land, buildings and improvements, furniture and fixtures, equipment and vehicles and are reported in the Government-wide financial statements. Capital assets are defined by the Authority as assets with an acquisition cost of more than $5,000 with an estimated useful life in excess of four years. Assets meeting this criteria are recorded at historical cost. Any donated capital assets are recorded at estimated fair market value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded in the Government-wide Statement of Activities and included as a direct expense of each program based on an allocation process.

The capital assets are depreciated using the straight-line method with a full-month of depreciation taken for assets purchased after the fifteenth of each month and no depreciation taken for those assets purchased prior to or on the fifteenth of each month over the following useful lives:

Buildings	40 years
Furniture, fixtures and other equipment	5-10 years
Vehicles	4 years

Investment in Capital Assets, Net of Related Debt

This is a portion of the net assets of the Authority that consists of capital assets, net of accumulated depreciation and reduced by long-term liabilities for notes, bonds and other debt attributable to the acquisition, construction or improvement of those assets.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Net Assets

Net assets are restricted when there are constraints placed on their use by external parties or by statute.

Unrestricted Net Assets

Net assets not meeting either criteria above are considered unrestricted.

Fund Balance

In the governmental fund-based financial statements, the fund balance represents the amount available for budgeting future operations. The reserved fund balance represents the tentative and required plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgets

The Authority signs contracts with Pathways Behavioral Health and the Michigan Department of Community Health annually with amendments occurring as needed. The contract provides authorization for the state and locally funded programs and, after approval by both entities, are adopted by the Authority as its budget on the functional level. As a result of this, the budgetary basis differs from that used to present the financial statements in conformity with generally accepted accounting principles (GAAP). The plans and budget are monitored, amended at various times during the year and lapse at year end.

NOTE C - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Public Act 275 of 1980 Disclosure

There was not an accumulated fund balance deficit as of September 30, 2007.

Public Act 621 of 1978 Disclosure

Public Act 621 of 1978 requires local units of government to prepare and to monitor their fiscal year budgets in accordance therewith. The Act provides that a local unit must amend its budget if it becomes apparent that the local unit's actual revenues will deviate from those budgeted, or if the local unit's expenditures will exceed the amounts appropriated. During the year ended September 30, 2007, the Authority monitored and amended its budget and was in substantial compliance with the Act except for the following:

	Budget	Actual (Budgetary Basis)	Unfavorable Variance
Revenues - Charges for services	$ 5,181,640	$ 5,100,242	$ 81,398

Budgetary – GAAP Reporting Reconciliation

The Statement of Revenues, Expenditures and Changes in Fund Balance (Budgetary Basis) and Comparison with Budget presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of resultant basis, timing, perspective and entity differences in (deficiency) of revenues and other sources of financial resources over expenditures and other uses of financial resources for the year ended September 30, 2007, is presented below:

	Special Revenue
Excess of revenues and other financing source over expenditures (budgetary basis)	$ 54,895
Adjustments to revenues and expenditures:	
To remove loss on disposal	133
For capital outlay	(14,942)
To remove depreciation	171,732
For debt service principal payments	(173,385)
For compensated absence payments	(1,019)
Excess of revenues and other financing source over expenditures (GAAP basis)	$ 37,414

NOTE D - CASH

Deposits were made in accordance with State of Michigan statutes and under authorization of the Administrative Board. State of Michigan statutes authorize investments in: direct obligations of the United States or an agency of the United States; banks which are members of the Federal Deposit Insurance Corporation; commercial paper rated at the time of purchase within the three highest classifications established by no fewer than two standard rating services; United States government or agency obligation repurchase agreements; bankers' acceptances of United States banks; certain mutual funds and certain common stocks.

The Authority uses accounts payable and payroll checking accounts, which are on an imprest system with bank balances reconciling to zero along with various other checking and savings accounts all in the same local bank. At September 30, 2007, cash on deposit in the financial institution totaled \$756,086 of which \$200,000 was covered by depository insurance and \$556,086 exceeded insurance coverage. The Authority places its deposits with what it believes to be a high quality financial institution. Although such deposits exceed federally insured limits, they are, in the opinion of the Authority, subject to minimal risk.

At September 30, 2007, the component unit had cash on deposit of \$178,591 of which \$100,000 was covered by depository insurance and \$78,591 exceeded insurance coverage.

Restricted cash includes \$227,170 restricted for payment of compensated absences.

NOTE E - COMPENSATED ABSENCES

The Authority has a written policy providing for payment of sick, personal and vacation leave. All compensated absences are combined as Paid Time Off with hours credited at a rate of 6.62 hours for every 80 hours worked for residential employees and 7.54 for non-residential employees. Additional Paid Time Off of 16 to 64 hours per year is accrued for employees with continuous years of service ranging from 5 to over 20 years. The maximum accrual for unused Paid Time Off is 640 hours. This is also the limit of hours paid upon termination. Employees have the option of selling unused Paid Time Off back to the Authority annually under certain eligibility criteria. Each employee's accumulated Paid Time Off is computed by applying current rates of pay times total accumulated hours, limited by the above policies. The total, \$220,535 at September 30, 2007, is reported in the financial statements as a liability in the Statement of Net Assets and as a reserved fund balance in the Governmental Fund Balance Sheet. Payment in lieu of accrued sick leave for those who did not sell or convert their hours to Paid Time Off is allowed only for employees who separate from employment for retirement purposes and is paid at a rate of fifty per cent of unused sick leave, which cannot exceed 90 workdays. Paid Time Off and sick leave utilized during the year are recorded as a current expenditure.

NOTE F - RETIREMENT SYSTEM

The Authority participates in Gogebic County's single-employer defined benefit pension plan that covers substantially all of its employees. County ordinance assigns the authority to establish and amend the benefit provisions of the plan to the County Board of Commissioners. The plan is included in the audited financial statements of County of Gogebic, Michigan, as of and for the year ended December 31, 2006, with additional information disclosed in Note Q to the financial statements.

Essentially all employees are eligible to participate in the System. All employees who retire at or after the time when the sum of age plus years of credited service is equal to 70, age 60 with 8 years of credited service or 20 years of service, are entitled to annual retirement benefit, payable monthly for life, equal to total service years times 2.5% of final average compensation. Final average compensation is the employee's highest three years out of the last ten.

Benefits fully vest upon reaching 8 years of service. The System also provides death and disability benefits. Benefits are established by State statute. The Authority makes all required payments for its members.

On December 2, 2003, the employees of the Authority voted to opt out of social security and elected an alternative to the social security benefit package. The alternative to the social security benefit package included enhancements to the current defined benefit pension plan through Gogebic County and the addition of a 401(a) money purchase plan. The enhancements to the pension plan included an increase in multiplier to 2.5% for both non-residential and residential employees, change in the final average compensation to the best three out of the last ten years, addition of the Deferred Retirement Option Plan (DROP), the cost of the 70 and out plan, and other options available at the time of retirement. With the enhancements of the alternative to social security plan, the contributions into the pension plan for employees are 20.2%. This contribution is funded by a 6.2% employee contribution and a 14% employer contribution. The employer also contributes 2.64% for non-residential employees and 1.45% for residential employees into the 401(a) money purchase plan.

Employer retirement contributions for the years ended September 30, 2007, 2006 and 2005, were $325,592, $341,101 and $286,207, respectively, in accordance with actuarially determined contribution requirements.

NOTE G - OPERATING LEASES

During the year the Authority paid $43,824 for buildings leased for various programs, computer software and a postage meter under operating leases. Future minimum operating lease rental payments are $42,008 for each of the two years ending September 30, 2009 and $16,673 for the year ending September 30, 2010.

The Authority's clinic and administrative operations building and a group home are leased under a capital lease described in Note J.

NOTE H – PREPAID EXPENSES

Prepaid expenses at September 30, 2007, consist of the following:

Capital lease payment	$ 178,463
Health insurance	66,271
Various	32,807
	$ 277,541

NOTE I - CAPITAL ASSETS

Capital asset balances and activity for the year ended September 30, 2007, were as follows:

	Balance at October 1, 2006	Additions	Deductions	Balance at September 30, 2007
Land	$ 7,717			$ 7,717
Buildings	2,469,897			2,469,897
Equipment	960,590	$ 14,942	$ 7,432	968,100
	$ 3,438,204	$ 14,942	$ 7,432	$ 3,445,714
Accumulated depreciation:				
Buildings	$ 586,808	$ 55,777		$ 642,585
Equipment	718,513	56,135	$ 6,569	768,079
	$ 1,305,321	$ 111,912	$ 6,569	$ 1,410,664
	$ 2,132,883	$ (96,970)	$ 863	$ 2,035,050

NOTE J - GENERAL LONG-TERM DEBT

Changes in long-term debt are summarized below:

	Balance at October 1, 2006	Additions	Deductions	Balance at September 30, 2007	Amount Due Within One Year
Compensated absences (Note E)	$ 221,554		$ 1,019	$ 220,535	$ 0
Capital lease payable	1,500,000		145,000	1,355,000	150,000
Note payable to bank	74,388		28,385	46,003	25,937
	$1,795,942	$ 0	$ 174,404	$ 1,621,538	$ 175,937

The aggregate amounts of long-term debt principal and interest maturities (excluding compensated absences) for the five years ending September 30, 2012, and in five-year increments after until maturity are:

	Principal	Interest	Total
2008	$ 175,937	$ 55,841	$ 231,778
2009	169,309	48,769	218,078
2010	170,757	42,155	212,912
2011	165,000	35,081	200,081
2012	170,000	28,275	198,275
2013 - 2015	550,000	38,285	588,285
Totals	$ 1,401,003	$ 248,406	$ 1,649,409

Capital Lease Payable

During February 1995 the Authority entered into a 20-year lease with its component unit to lease a clinic and administrative operations building and a group home. The payments are to be sufficient to provide for the principal and interest due on the bonds issued by its component unit to construct the buildings. On February 28, 2005, this lease was updated as the component unit issued 2005 Revenue Refunding Bonds of $1,635,000 and used the proceeds to refund the original bonds of $1,520,000. The interest rates vary from 4% to 4.625%. (Further described in Note N.) At the end of the lease, the ownership of the buildings is to be turned over to Gogebic County, Michigan, with no financial obligation to the County and for the County to manage at its discretion. The principal value of the bonds has been capitalized and recorded as a capital asset. The required lease payments are sufficient to cover its component unit's principal and interest payment due on October 1 and April 1 of each year. The present value of the net minimum lease payments is equal to the total principal due on the bonds of the component unit. A summary of the annual payments follows:

NOTE J - GENERAL LONG-TERM DEBT (CONTINUED)

Capital Lease Payable (Continued)

Year ending September 30,	Principal	Interest	Total
2008	$ 150,000	$ 54,181	$ 204,181
2009	155,000	48,081	203,081
2010	165,000	41,681	206,681
2011	165,000	35,081	200,081
2012	170,000	28,275	198,275
2013	175,000	20,941	195,941
2014	185,000	12,950	197,950
2015	190,000	4,394	194,394
	$ 1,355,000	$ 245,584	$ 1,600,584

Notes Payable to Bank

The notes payable to bank consist of the following notes payable to First National Bank of Wakefield, Michigan:

A note payable dated August 23, 2004, the proceeds of which were used to buy four automobiles. The note is collateralized by a savings account. The note bears an interest rate of 4.4% and requires a monthly payment of $1,356, including interest. A summary of annual payments follows:

Year ended September 30,	Principal	Interest	Total
2008	$ 13,180	$ 304	$ 13,484

NOTE J - GENERAL LONG-TERM DEBT (CONTINUED)

Notes Payable to Bank (Continued)

A note payable dated February 25, 2005, the proceeds of which were used to buy a Kubota tractor. The note is collateralized by the tractor. The note bears an interest rate of 4.4% and requires a monthly payment of $364, including interest. A summary of annual payments follows:

Year ended September 30,	Principal	Interest	Total
2008	$ 4,006	$ 366	$ 4,372
2009	4,189	182	4,371
2010	1,404	417	1,821
	$ 9,599	$ 965	$ 10,564

A note payable dated January 5, 2006, the proceeds of which were used to buy an automobile. The note is collateralized by the automobile. The note bears an interest rate of 5.0% and requires a monthly payment of $452, including interest. A summary of annual payments follows:

Year ended September 30,	Principal	Interest	Total
2008	$ 4,488	$ 482	$ 4,970
2009	5,188	234	5,422
2010	1,789	19	1,808
	$ 11,465	$ 735	$ 12,200

A note payable dated February 21, 2006, the proceeds of which were used to buy a van. The note is collateralized by the van. The note bears an interest rate of 5.11% and requires a monthly payment of $434, including interest. A summary of annual payments follows:

Year ended September 30,	Principal	Interest	Total
2008	$ 4,263	$ 508	$ 4,771
2009	4,932	272	5,204
2010	2,564	38	2,602
	$ 11,759	$ 818	$ 12,577

NOTE K - DEFERRED COMPENSATION FUND

In addition to the normal retirement plan discussed in Note F above, the Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to substantially all employees, permits employees to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan and all income attributable to those amounts, are (until paid or made available to the employee or other beneficiary) held in a trust for the exclusive benefit of plan participants and their beneficiaries.

Investments are managed by the plan's trustees under one of several investment options, or a combination thereof. The choice of the investment option is made by the participants.

It has been determined that the Authority does not have any fiduciary responsibility regarding this Plan and, accordingly, has not recorded any of its assets or activities in its financial statements.

NOTE L - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority manages its risk by purchasing insurance coverage through Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool providing property and liability coverage to its participating members. MMRMA is created by authority granted by the laws of the State of Michigan to provide risk financing and risk management services to eligible Michigan local governments. MMRMA is a separate legal and administrative entity as permitted by Michigan laws. The Authority is eligible to be a member of MMRMA.

The Authority is responsible to pay all costs, including damages, indemnification and allocated loss adjustment expenses for each occurrence that is within the member's self insurance retention (SIR). Authority SIR and deductibles are as follows:

	Coverage	Deductible	Self Insured Retention
1.	Liability	None	State Pool Member
2.	Vehicle Physical Damage	$250/Vehicle	State Pool Member
3.	Property and Crime	$250/ Occurrence	State Pool Member
4.	Sewage System Overflow	N/A	

Coverage limits vary depending upon the type of claim. Coverage limits can be found in the Coverage Overview Document and are generally up to $10,000,000 of occurrence-based casualty coverage for each incident and up to $4,182,797 of occurrence-based property coverage.

NOTE L - RISK MANAGEMENT (CONTINUED)

Various addendums to the coverage include:

1. Sewage Exclusion
2. Limited Liability Coverage for Terrorism – Modifies the Liability and Motor Vehicle Physical Damage Coverage
3. Limited Property Coverage for Terrorism – Modifies the Property and Crime Coverage

The Authority's liabilities for its share of losses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities can include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. The Authority estimates that the potential unpaid and unreported claims do not substantially exceed the amount of self-insurance retention reserves available to pay claims.

The Authority carries commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M – DEFERRED REVENUE

Deferred revenue at September 30, 2007, consisted of $38,938 of Michigan Department of Community Health grant funds.

NOTE N – CAPITAL LEASE RESTATEMENT/DEBT REFUNDING

On February 28, 2005, the capital lease was restated to account for the component unit issuing $1,635,000 of Limited Obligation Revenue Refunding Bonds, Series 2005 (Refunding Bonds) to advance refund $1,520,000 of Limited Obligation Revenue Bonds, Series 1994 (Original Bonds). The Authority's lease was set up to be sufficient to provide for the principal and interest due on the Original Bonds and is now set up for the Refunding Bonds.

The Original Bonds were set to mature at varying amounts on October 1, 2005 through October 1, 2014 with interest rates ranging from 7% to 7.875% and were subject to an optional redemption after October 1, 2004, but prior to October 1, 2006 at a premium of 2% of par. The Refunding Bonds were issued with a discount of $7,181, and after issuance costs of $70,120 and a deferred amount on refunding of $30,400, the net proceeds were $1,527,299. The discount, issuance costs and deferred amount on refunding are being amortized over the term of the Refunding Bonds and are accounted for in the financial statements of the component unit.

NOTE N – CAPITAL LEASE RESTATEMENT/DEBT REFUNDING (CONTINUED)

The effect of the capital lease being restated to reflect the principal balance increasing from $1,520,000 to $1,635,000 is reported as a deferred amount on capital lease restatement and is being amortized over the remaining term of the lease. The unamortized balance is reported as a deduction against the capital lease receivable in the component unit's financial statements and as a deduction against the capital lease payable in the Authority's financial statements.

REQUIRED

SUPPLEMENTAL

INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(BUDGETARY BASIS) AND COMPARISON WITH BUDGET

COMMUNITY MENTAL HEALTH AUTHORITY

Year ended September 30, 2007

	Original Budget	Final Budget	Actual (Budgetary Basis)
Revenues:			
Federal grants	$ 50,373	$ 43,330	$ 47,990
State grants	914,887	792,477	743,299
Charges for services	4,955,171	5,181,640	5,100,242
Other	57,208	35,204	36,067
Total	$ 5,977,639	$ 6,052,651	$ 5,927,598
Current expenditures:			
Health and welfare:			
Board administration	$ 1,427,040	$ 1,636,930	$ 1,584,188
Prevention grant	61,477	12,184	9,792
Clinical Services	1,380,360	1,611,822	1,565,838
Clinical Support Services	144,137	124,040	119,637
Vocational/Skill Building Programs	424,048	320,263	302,831
State and Community Inpatient	698,956	394,820	398,421
Residential	2,147,474	2,054,236	2,009,496
Total	$ 6,283,492	$ 6,154,295	$ 5,990,203
Deficiency of Revenues Over Expenditures	$ (305,853)	$ (101,644)	$ (62,605)
Other Financing Source - transfer from Gogebic County	117,500	117,500	117,500
Excess (Deficiency) of Revenues and Other Financing Source Over Expenditures	$ (188,353)	$ 15,856	$ 54,895
Budgetary fund balance at October 1, 2006	182,078	182,078	182,078
BUDGETARY FUND BALANCE AT SEPTEMBER 30, 2007	$ (6,275)	$ 197,934	$ 236,973

The accompanying notes are an integral part of the financial statements.

SUPPLEMENTAL

REPORT

JOKI, MAKELA & POLLACK, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
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IRONWOOD, MICHIGAN 49938-2027

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board
Community Mental Health Authority
Wakefield, Michigan

We have audited the financial statements of Community Mental Health Authority (Authority), a component unit of Gogebic County and its discretely presented component unit as of and for the year ended September 30, 2007, and have issued our report thereon dated January 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States and standards prescribed by the State Treasurer.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the following section to be a significant deficiency in internal control over financial reporting.

Budget Requirements

Public Act 621 of 1978 requires local units of government to prepare and to monitor their fiscal year budgets in accordance therewith. The Act provides that a local unit must amend its budget if it becomes apparent that the local unit's actual revenues will deviate from those budgeted, or if the local unit's expenditures will exceed the amounts appropriated. During the year ended September 30, 2007, the Authority monitored and amended its budget and was in substantial compliance with the Act except for the following:

	Budget	Actual (Budgetary Basis)	Unfavorable Variance
Revenues - Charges for services	$ 5,181,640	$ 5,100,242	$ 81,398

We recommend that the Authority more closely monitor the budget and make amendments as needed.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Board, management and designated regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
January 31, 2008